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CIA/OER/IM 71-38 COMM. CHINA DEVELOPMENTS

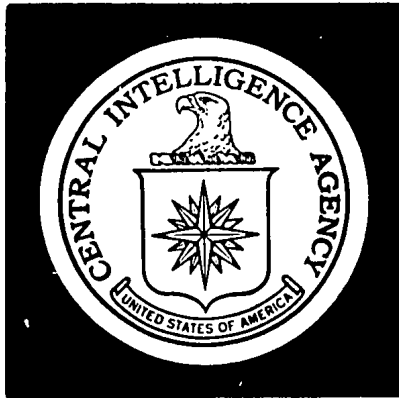
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MARCH 1971

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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

*Communist China: Recent Developments
In Trade With Eastern Europe*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1971

INTELLIGENCE MEMORANDUM

Communist China: Recent Developments
In Trade With Eastern Europe

Introduction

During the 1950s when Communist China was pursuing a program of rapid industrialization under Soviet sponsorship, the countries of Eastern Europe provided key supplementary support in the form of plant, equipment, and technical assistance. Both Sino-Soviet and Sino-East European trade grew rapidly during this period, with Sino-East European trade being about two-fifths the volume of Sino-Soviet trade in the late 1950s. After the hardening of the Sino-Soviet dispute and the collapse of the Leap Forward in 1960, China's trade with Eastern Europe dropped sharply, again following the Soviet pattern. Since 1964, however, the economic relationships of the USSR and Eastern Europe with China have followed divergent paths. Sino-East European trade has risen while Sino-Soviet trade has continued to decline. Even though the current level of trade is less than one-half of the 1958 peak, Eastern Europe today supplies 40% of China's machinery and equipment imports.

This memorandum addresses the question of the importance of current Sino-East European trade to China as well as to the six countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. First, it summarizes the general trends in this trade during the past two decades. Then, it examines the country and commodity distribution of current trade. Finally, the memorandum analyzes the mutual benefits of

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this trade and prospects for its expansion during China's new Fourth Five-Year Plan (1971-75). An Appendix describes China's trade with Albania and Yugoslavia.

Early Expansion

1. Sino-East European trade, which started from practically zero in 1950, increased rapidly and by 1958 accounted for almost 20% of Communist China's total trade. Up to 1960, East Germany and Czechoslovakia accounted for about two-thirds of China's trade with the East European Communist countries, Poland and Hungary for about one-fourth, and Romania and Bulgaria the remainder.

2. Next to the USSR, Eastern Europe was the largest exporter of machinery and equipment to China in the 1950s, including industrial, transport, agricultural, and communications equipment. East Germany and Czechoslovakia were the major suppliers. From 1950 to 1959, China received from Eastern Europe machinery and equipment valued at \$1.7 billion, approximately 40% of China's machinery imports. China paid for these vital imports by exporting a wide range of raw materials and foodstuffs to Eastern Europe. China could have produced these goods at home only after long delay and at a much higher cost in resources.

Decline and Partial Revival

3. Toward the end of the 1950s, the growing discord between China and the Soviet Union began to influence China's trade relations with Eastern Europe. Following the withdrawal of Soviet technicians from China in 1960, Sino-East European trade fell sharply and in 1961 amounted to less than one-half the level of 1960. Trade fell another 45% in 1962, but then stabilized in 1963 and 1964 (see Figure 1). Eastern Europe accounted for only 5% of China's trade in these latter two years. This sudden drop in trade created difficulties for Eastern Europe both in marketing the machinery produced to Chinese specifications and in finding

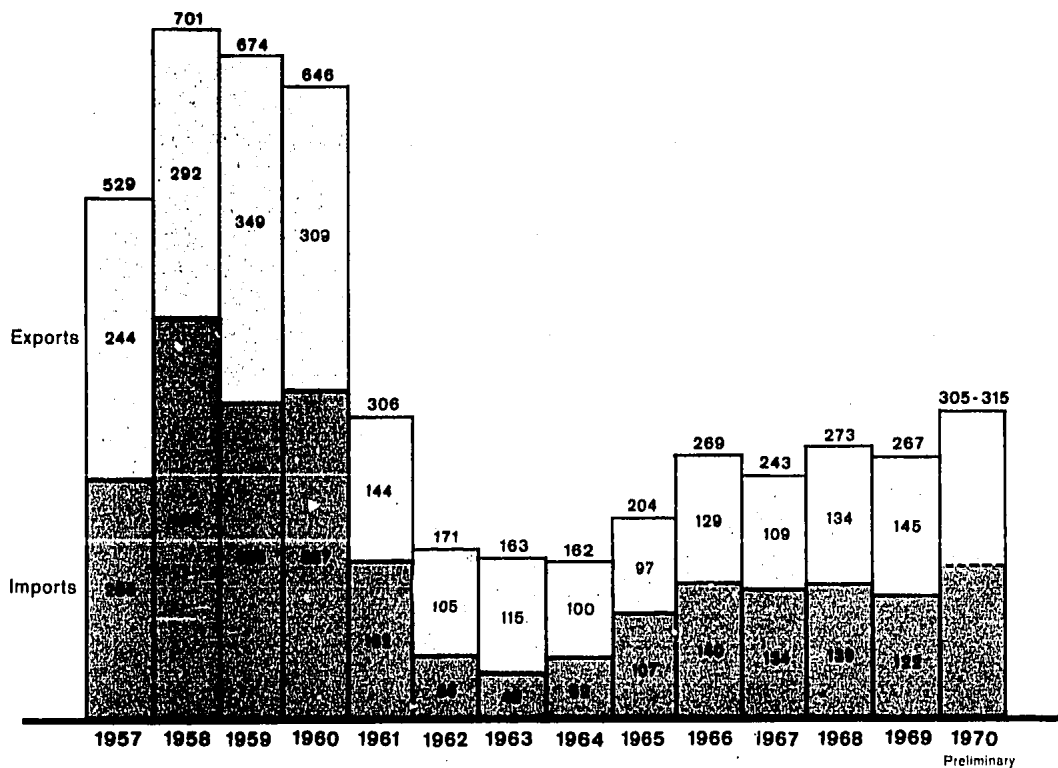
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alternative sources of supply and credit for materials normally imported from China. On the Chinese side, the economy was suffering from the collapse of the Leap Forward and the withdrawal of Soviet technical assistance. China in this period lacked the capacity either to assimilate sizable imports of new capital goods or to continue to export large quantities of foodstuffs and raw materials.

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Figure 1

Communist China: Trade with Eastern Europe*Million US \$*

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4. Since 1964, China's trade with Eastern Europe has revived in concert with the general revival of the domestic economy. In 1970, trade turnover was almost double the level of 1964, despite a hiatus in expansion during the Cultural

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Revolution. By contrast, Sino-Soviet trade continued to decline during this period, being less than \$100 million in 1969-70, compared with \$450 million in 1964.

5. The period of the 1960s was marked by a tremendous shift in China's trade from the Communist countries to the Free World. The Free World now accounts for 80% of China's foreign trade, whereas in 1959 the picture was reversed with Communist countries accounting for 70%. As shown in Figure 1, even though Sino-East European trade was revived in the late 1960s, it is still less than half the peak level of the late 1950s.

Pattern of Trade, by Country

6. China's trade with each of the six countries of Eastern Europe has followed an individual pattern, depending on the economic resources of the country and the warmth of its political relations with China. While all six countries lost trade with China in the early 1960s, only three -- Romania, Czechoslovakia, and East Germany -- shared in the revival and had a level of trade with China in 1969 substantially higher than the 1963-64 low. And only two -- Romania and Czechoslovakia -- carried on more trade with China in 1969 than they did in 1966. As for 1970, trade agreements had generally called for a 20%-25% increase in trade. Preliminary reports confirm an increase of at least 15% for Eastern Europe as a whole with variations among the six countries. The following paragraphs summarize trends for each of the six, with emphasis on 1969-70.

7. Romania, China's leading trading partner in Eastern Europe, posted a sharp gain in trade in 1970, to \$108 million from \$81 million in 1969. Romania currently accounts for one-third of China's trade with Eastern Europe. Prospects for higher levels of trade were improved in November 1970, when China agreed to supply Romania with equipment and technology for a number of complete plants on credit. The Chinese loan will be substantial, and the Romanians will have a 10-year grace period before repayments are due. Some of the plants apparently will be for the production of ceramics and glass. (Table 1 presents estimates of China's trade with each country of Eastern Europe for 1957-70.)

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Table 1
Communist China: Trade with Eastern Europe, by Country

	Million US \$													a/
	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Bulgaria	<u>9</u>	<u>18</u>	<u>17</u>	<u>18</u>	<u>12</u>	<u>6</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>4</u>	<u>3</u>	<u>4</u>	<u>4</u>	b/
Imports from	4	11	6	8	8	3	1	2	1	2	2	2	2	
Exports to	5	7	11	10	4	3	2	1	1	2	1	2	2	
Czechoslovakia	<u>148</u>	<u>200</u>	<u>196</u>	<u>202</u>	<u>76</u>	<u>38</u>	<u>38</u>	<u>30</u>	<u>32</u>	<u>46</u>	<u>33</u>	<u>44</u>	<u>59</u>	<u>55- 60</u>
Imports from	81	109	100	109	34	12	9	9	19	22	19	24	26	
Exports to	67	91	96	93	42	26	29	21	13	24	14	20	33	
East Germany	<u>195</u>	<u>240</u>	<u>219</u>	<u>197</u>	<u>95</u>	<u>54</u>	<u>35</u>	<u>36</u>	<u>51</u>	<u>68</u>	<u>69</u>	<u>65</u>	<u>63</u>	<u>70- 75</u>
Imports from	106	133	107	97	55	22	10	16	26	36	34	37	30	
Exports to	89	107	112	100	40	32	25	20	25	32	35	28	33	
Hungary	<u>60</u>	<u>92</u>	<u>84</u>	<u>76</u>	<u>46</u>	<u>23</u>	<u>23</u>	<u>19</u>	<u>26</u>	<u>32</u>	<u>18</u>	<u>19</u>	<u>19</u>	<u>22</u>
Imports from	29	58	40	40	29	12	3	4	15	16	11	10	7	
Exports to	31	34	44	36	17	11	20	15	11	16	7	9	12	
Poland	<u>82</u>	<u>108</u>	<u>99</u>	<u>96</u>	<u>48</u>	<u>38</u>	<u>36</u>	<u>40</u>	<u>44</u>	<u>53</u>	<u>48</u>	<u>56</u>	<u>41</u>	<u>50</u>
Imports from	45	72	43	50	27	15	11	15	19	30	29	25	18	
Exports to	37	36	56	46	21	23	25	25	25	23	19	31	23	
Romania	<u>35</u>	<u>43</u>	<u>59</u>	<u>57</u>	<u>29</u>	<u>12</u>	<u>28</u>	<u>34</u>	<u>49</u>	<u>66</u>	<u>72</u>	<u>85</u>	<u>81</u>	<u>108</u>
Imports from	20	26	29	33	9	2	14	16	27	34	39	41	39	
Exports to	15	17	30	24	20	10	14	18	22	32	33	44	42	
Total Eastern Europe	<u>529</u>	<u>701</u>	<u>674</u>	<u>646</u>	<u>306</u>	<u>171</u>	<u>163</u>	<u>162</u>	<u>204</u>	<u>269</u>	<u>243</u>	<u>273</u>	<u>267</u>	<u>305-315</u>
Imports from	285	409	325	337	162	66	48	62	107	140	134	139	122	
Exports to	244	292	349	309	144	105	115	100	97	129	109	134	145	
China's total trade c/	<u>3,025</u>	<u>3,735</u>	<u>4,265</u>	<u>3,975</u>	<u>3,015</u>	<u>2,675</u>	<u>2,770</u>	<u>3,220</u>	<u>3,850</u>	<u>4,205</u>	<u>3,860</u>	<u>3,710</u>	<u>3,855</u>	<u>4,250</u>
Imports	1,430	1,825	2,060	2,030	1,495	1,150	1,200	1,470	1,855	2,035	1,945	1,820	1,835	2,100
Exports	1,595	1,910	2,205	1,945	1,525	1,525	1,570	1,750	1,995	2,170	1,915	1,890	2,020	2,150

a. Preliminary.

b. Less than \$1 million.

c. Rounded to the nearest \$5 million and because of rounding, components may not add to the totals shown.

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8. Sino-Czechoslovak trade fell sharply in 1967, but rose by one-third in 1968 and again in 1969. Preliminary reports indicate that because of delays in contract signings the expected increase in trade in 1970 did not occur. Citing a more positive Chinese attitude and earlier trade negotiations for 1971, Czech sources are hopeful that trade in 1971 will resume the pattern of growth of the late 1960s.

9. East Germany at present accounts for about one-fourth of China's trade with Eastern Europe. East Germany, China's leading trading partner in Eastern Europe in 1958, now is second to Romania. Although no final figures are available for 1970, Sino-East German trade was slated to increase by 20%. The importance of East German machinery to China should insure a continuation of moderately high levels of trade in the 1970s.

10. Sino-Polish trade increased by 22% in 1970, nearly regaining the levels achieved in 1966 and 1968. Prospects for a further increase in trade in 1971 were clouded, however, by the vituperative Chinese attack on the new Giersek government. Polish reaction thus far has been quite restrained; however, this trade is unlikely to rise much above the level of \$50-\$60 million for a few years.

11. China's combined trade with Hungary and Bulgaria is less than 10% of China's total trade with Eastern Europe. Trade turnover with Hungary, which was an important trading partner in the late 1950s, has not exceeded \$25 million since 1966. Bulgaria's two-way China trade has been less than \$5 million per year since 1962. Trade with neither country is likely to play a major role in China's economic picture in the early 1970s.

Commodity Composition

Imports

12. The composition of China's imports from Eastern Europe has been remarkably stable during the past decade. In 1969, as in 1958, about 90% of imports were manufactures, 5% were chemicals, 5% were crude materials, and the remainder consisted of foodstuffs and other items. The most notable

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feature is the preponderance of machinery and equipment in the import bill. Of all manufactured goods imported in 1969, 90% (or \$100 million) was machinery and equipment. Accordingly, about 80% of China's total imports from Eastern Europe consist of machinery and equipment.*

13. Among the more important types of machinery imported by China from Eastern Europe are machine tools, farm machinery, construction equipment, generators, cranes, compressors, and diesel engines. Some of these imports represent replacements or spare parts for machinery imported by China during the 1950s. As for transportation equipment, in the past six years China has purchased more than 20,000 trucks, 36 ships with a total capacity of over 330,000 DWT for its international and coastal fleets, and 1,150 railroad freight cars, about 85% of which have been tank cars. Figure 2 lists in rough order of importance the major types of machinery and industrial products currently being imported from Eastern Europe.

Exports

14. In contrast to imports, the composition of China's exports to Eastern Europe has changed markedly over the past decade. Manufactured goods (chiefly textiles) comprised about one-half of China's exports in 1969, versus 30% in 1958. Sales of crude materials fell sharply, from 40% of the total in 1958 to 15% in 1969, while the proportions of foodstuffs in the export mix increased from about 25% to 30% and chemicals were steady at 5% (see Figure 3).

* By comparison with the data for China's trade with most Free World countries and with the USSR, the information on commodities flowing in Sino-East European trade is quite general for some countries and fragmentary for others. Thus, while the major commodities in the trade can be identified and rough estimates of broad commodity categories can be made (see Table 2), it is not possible to compile detailed statistical tables of the commodity composition of China's trade with the six countries of Eastern Europe.

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Figure 2

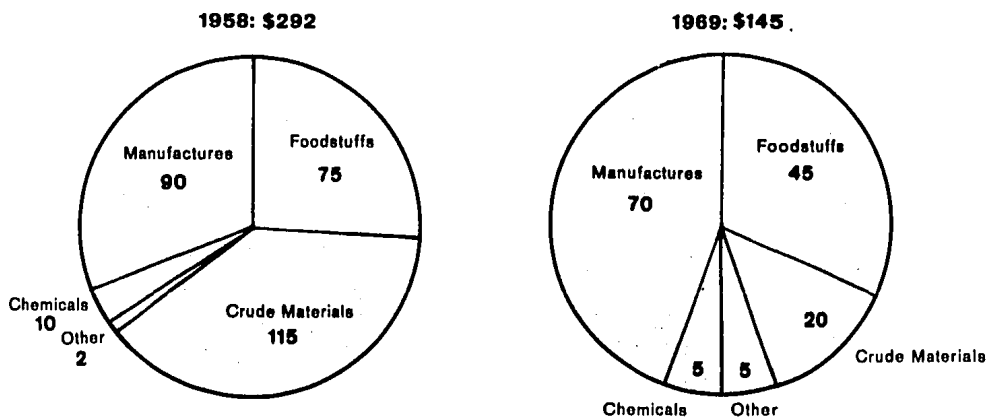
**Communist China: Types of Machinery and Industrial Products
Currently Imported from Eastern Europe**

<i>Romania</i>	<i>East Germany</i>	<i>Czechoslovakia</i>
Machine tools	Machine tools	Machine tools
Trucks	Steel products	Steel products
Construction equipment	Ships	Trucks
Steel products	Cranes	Construction equipment
Railroad tank cars	Rail cars	Diesel engines
Agricultural equipment	Generators	Precision instruments
Diesel engines	Chemicals	Medical equipment
Special lubricants	Communications equipment	
Chemicals	Electric locomotives	
Petroleum exploration equipment	Precision instruments	
Equipment for oil refineries		
<i>Poland</i>	<i>Hungary</i>	<i>Bulgaria</i>
Machine tools	Machine tools	Agricultural equipment
Construction equipment	Trucks	Nonferrous metals
Farm machinery	Cranes	Ships
Compressors	Electronic equipment	
Ships	Precision instruments	
Precision instruments	Telecommunications equipment	
Coal mining equipment		
Machinery for power plants		
Automatic controlling equipment		

Figure 3

Communist China: Commodity Composition of Exports to Eastern Europe

Million US \$



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Table 2

Communist China: Estimated Commodity Composition of Trade with Eastern Europe a/

	Million US \$												
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Total Chinese exports	<u>244</u>	<u>292</u>	<u>349</u>	<u>309</u>	<u>144</u>	<u>105</u>	<u>115</u>	<u>100</u>	<u>97</u>	<u>129</u>	<u>109</u>	<u>134</u>	<u>145</u>
Of which:													
Foodstuffs	60	75	85	75	35	25	30	30	30	40	35	40	45
Crude materials, fuels, and edible oils	100	115	140	125	60	40	45	30	30	20	15	20	20
Chemicals	10	10	15	15	5	5	5	5	5	5	5	5	5
Manufactures	70	90	105	90	40	30	35	35	30	60	50	65	70
Total Chinese imports	<u>285</u>	<u>409</u>	<u>325</u>	<u>337</u>	<u>162</u>	<u>66</u>	<u>48</u>	<u>62</u>	<u>107</u>	<u>140</u>	<u>134</u>	<u>139</u>	<u>122</u>
Of which:													
Foodstuffs	<u>b/</u>	5	5	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>	<u>b/</u>
Crude materials, fuels, and edible oils	10	15	15	15	5	<u>b/</u>	<u>b/</u>	<u>b/</u>	5	5	5	5	5
Chemicals	15	20	15	15	10	<u>b/</u>	<u>b/</u>	<u>b/</u>	5	5	5	5	5
Manufactures	255	365	290	305	145	60	40	55	95	125	120	125	110

a. Data for totals have been rounded to the nearest \$1 million. All other data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

b. Less than \$0.5 million.

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15. The largest component in China's exports of manufactures is textile products. In 1969, China sold more than \$40 million of textile yarn and fabrics and about \$10 million of clothing to Eastern Europe. Other manufactures exported from China are predominantly consumer nondurable goods such as school supplies, dishes, and the like. The majority of the foodstuffs exported in 1969 were either meat and meat products (\$35 million) or grain (about \$5 million). Most crude materials shipments are oils and oil seeds or animal materials such as hog casings, hair, and bristles.

Trade Benefits and Prospects

16. Eastern Europe supplies China with useful transport equipment and basic industrial equipment and is willing to accept Chinese textiles, meat products, and crude materials in return. Although not on a technological par with the advanced machinery and precision equipment imported from Japan and Western Europe, the machine tools and other industrial equipment from Eastern Europe support important segments of China's industrialization effort. Some of these machinery imports are important to maintaining production in the plants that these countries helped China build in the 1950s. The cost to China of these replacements and parts is much less than if they had to be made domestically. Moreover, Eastern Europe is supplying the equipment for new plants in the chemical and machinery industries which, while not on the frontier of world technology, furnish China with substantial new bread-and-butter industrial capacity. Finally, East European ships, trucks, and railroad rolling stock help in the gradual renovation and expansion of China's transportation system.

17. As for exports, China can produce low to medium quality textiles which, although they might encounter buyer resistance in developed Western countries, are accepted in Eastern Europe. Hog casings, bristles, and hair, as well as pork, are traditional export items to Eastern Europe. Sino-East European trade thus enables both sides to conserve hard currency holdings and to concentrate their use on the higher technology goods of the Free World.

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18. Since Sino-East European trade is conducted on the basis of bilateral trade agreements, trade imbalances do not require hard currency payments; rather, imbalances are usually settled by shipments of goods in the following year.* The trade agreements are negotiated on a government-to-government basis. As a residual benefit, trade talks provide an additional line of communication between the governments involved.

19. Because of the mutual benefits of trade, Sino-East European trade should continue to grow in the 1970s. China, which has recovered from the traumas of the Cultural Revolution, is looking forward to considerable expansion of its industrial capacity under a new Fourth Five-Year Plan (1971-75) and could make good use of greater quantities of East European machinery and equipment. Moreover, larger amounts of Chinese textiles and meat products would be welcome to East European consumers. The greatest expansion will come in trade with Romania, in part because China extended a substantial long-term credit to Romania last November. Czechoslovakia and East Germany have a wide variety of machinery and equipment to offer China, and trade with these two countries will probably also show substantial growth. Trade with the three lesser trading partners -- Poland, Hungary, and Bulgaria -- will probably rise more slowly.

* An interesting facet of the 1970 trade agreements was the Chinese desire to dispense with the ruble as the unit of account. Accordingly, trade agreements with Czechoslovakia, Poland, and East Germany are now denominated in Swiss francs; the Romanian protocol used the Chinese ren min bi (RMB) and the Romanian lei. There is little economic significance to this gesture as imbalances are still to be settled in goods, not hard currency.

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APPENDIX

Albanian and Yugoslav Trade
with Communist China

Albania and Yugoslavia are not grouped with the East European Communist countries largely on ideological grounds. These same grounds have conditioned Chinese trade with the two countries. Albania split from the Soviet Bloc at the time of the Sino-Soviet rift and became a political protege of China. Since then, China has been Albania's principal trading partner and source of economic aid. Yugoslavia broke with the Soviet Bloc soon after World War II and opted for the West in its trade relations. Thus Sino-Yugoslav trade has been carried on at low levels.

Albania

Aid deliveries have been the most prominent feature of Sino-Albanian trade since China replaced the USSR as Albania's benefactor in 1961. Table 3 shows the shift in the relationship since 1950. Since 1957, Sino-Albanian trade has increased from a level of \$3 million to about \$115 million in 1969 (see Table 4). From 1955 to 1960, Albania incurred a deficit of \$11 million in trade with China. For the period 1961-69 the deficit totaled \$340 million, all of which was financed by Chinese credits.

China exports a wide range of goods to Albania which supply almost the whole gamut of Albania's needs, including machinery and equipment, iron and steel, nonferrous metals, and consumer goods. A notable feature of this trade is Albanian purchases of goods on Chinese account. Goods that China cannot readily supply are purchased by China in the Free World and Eastern Europe and shipped directly to Albania. All of Albania's wheat imports and a large part of its machinery and manufactured goods are believed to be thus financed by China.*

* *Estimates of Chinese exports in Table 4 include goods purchased in third countries on Chinese account.*

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Table 3

Trade with China and the USSR
as a Percent of Total Albanian Trade

	<u>1950</u>	<u>1956-60 Annual Average</u>	<u>1961</u>	<u>1962</u>	<u>1965</u>	<u>1969</u>
China						
Imports from	0	4	27	66	66	62
Exports to	0	3	6	29	41	34
USSR						
Imports from	37	55	31	Negl.	0	0
Exports to	63	48	43	0	0	0

China has underwritten Albania's economic plan for 1971-75 with credits for the construction of 30 industrial projects, including an oil refinery, a hydroelectric plant, a ferro-nickel refinery, and a steel plant. China's imports from Albania consist primarily of chromium ore, blister copper, refined asphalt, crude oil, tobacco, and cigarettes.

Sino-Albanian trade is expected to continue to increase over the next several years. Agreements were signed in October 1970 providing for goods and payments exchanges during 1971-75 and for a long-term interest-free loan to finance Albania's Fifth Five-Year Plan covering the same period. Albania reaps substantial benefits from the large aid component of this trade for developing its backward economy. China benefits from having a staunch political supporter in the Sino-Soviet dispute. In addition, Albania is a source of chromium ore, a strategic commodity.

Yugoslavia

Formal trade ties between Yugoslavia and China did not begin until 1956 with the signing of trade and payments agreements. Trade growth was cut

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Table 4

Communist China: Trade with Albania and Yugoslavia

	Million US \$												
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Albania	<u>3</u>	<u>3</u>	<u>3</u>	<u>9</u>	<u>23</u>	<u>54</u>	<u>65</u>	<u>86</u>	<u>95</u>	<u>94</u>	<u>83</u>	<u>93</u>	<u>115</u>
Imports from	1	1	1	2	3	12	23	24	26	23	20	25	27
Exports to a/	2	2	2	7	20	42	42	62	69	71	63	68	88
Yugoslavia	<u>11</u>	<u>6</u>	<u>4</u>	<u>2</u>	<u>Negl.</u>	<u>Negl.</u>	<u>Negl.</u>	<u>Negl.</u>	<u>Negl.</u>	<u>2</u>	<u>15</u>	<u>1</u>	<u>2</u>
Imports from	7	1	1	1	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	1	1	1
Exports to	4	5	3	1	Negl.	Negl.	Negl.	Negl.	Negl.	2	14	Negl.	1

a. Including goods purchased for Albania in third countries on Chinese account.

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short in 1958 by China's new hostility toward Yugoslavia's "revisionist" policies. During 1961-65 total trade was negligible. Turnover was \$1-\$2 million during 1966-69, with the exception of 1967 when large Chinese exports of pork boosted trade to \$15 million.

A new chapter in trade relations began in 1969 with the signing of a new trade and payments agreement which provided for settling trade balances in hard currency. Although trade in 1969 amounted to only \$1.6 million, trade relations have noticeably thawed. Official delegations for the Canton and Zagreb trade fairs were exchanged, and a Sino-Yugoslav shipping service was inaugurated.

Trade turnover in 1970 increased to \$7 million, of which \$5 million represented Chinese imports and \$2 million exports. In addition, an agreement was reached on the use of the Yugoslav port of Rijeka for the transit of goods in Sino-East European trade. The types of commodities exported to Yugoslavia have been the standard Chinese export mix, consisting largely of meat, crude materials, and textiles. Imports from Yugoslavia have been primarily iron and steel, with some chemicals and nonferrous metals. Since 1969, contracts for the import of six marine engines worth \$1 million have been signed, and talks have begun for the purchase of freighters and tankers. If political relationships continue to be more friendly, China's trade with Yugoslavia may be expected to expand gradually from its small base in the 1960s.

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